

Message Text

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 8667

C O N F I D E N T I A L SECTION 1 OF 2 ATHENS 3459

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SUBJ: ECONOMIC ASSISTANCE TO GREECE

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FOR UNDER SECRETARIES SISCO AND ROBINSON FROM AMBASSADOR
KUBISCH

1. SUMMARY AND INTRODUCTION: RECENT DEVELOPMENTS AT BOTH
ENDS OF THE MEDITERRANEAN, AND THE UNCERTAIN OUTLOOK IN THE
BALKANS IN A POST-TITO ERA WHICH APPEARS NOT FAR DISTANT,
HIGHLIGHT THE IMPORTANCE FOR U.S. STRATEGIC INTERESTS OF
THE MAINTENANCE OF STABLE, REPRESENTATIVE AND PRO-WESTERN
GOVERNMENT IN GREECE. IT IS CLEARLY IN THE U.S. INTEREST
TO SUPPORT THE GREEK ECONOMY AS MUCH AS POSSIBLE, IN ORDER
TO AVOID THE DESTABILIZING POLITICAL REPERCUSSIONS WHICH
WOULD ACCOMPANY DETERIORATION OF THE CURRENTLY VULNERABLE
ECONOMIC SITUATION. THE PRIME MINISTER AND HIS HIGHEST LEVEL
ECONOMIC POLICY-MAKERS HAVE INDICATED TO THIS EMBASSY ON
NUMEROUS OCCASIONS IN RECENT MONTHS, AS REPORTED IN A
SERIES OF TELEGRAMS, THEIR SERIOUS CONCERN REGARDING ECONOMIC
CONDITIONS, WHICH THEY VIEW AS CLOSELY CONNECTED WITH THE
CONTINUED POLITICAL VIABILITY OF THE CARAMANLIS GOVERNMENT.

2. IN VIEW OF THE CONTINUING EVOLUTION OF U.S. RELATIONS
WITH GREECE, I BELIEVE THE TIME IS NOW RIPE FOR THE U.S.

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TO PUT TOGETHER ELEMENTS OF AN ECONOMIC PACKAGE WHICH WOULD

EVIDENCE STRONG U.S. INTEREST IN, AND SUPPORT FOR, THE CARAMANLIS GOVERNMENT, AS WELL AS DEMONSTRATING POSITIVE RESULTS OF THE KISSINGER-BITSIOS TALKS BEGINNING FIVE MONTHS AGO IN BRUSSELS. THE IMPORTANCE OF SUCH U.S. ACTION, IN CONTRIBUTING TO A DIMINISHING OF THE RISKS OF A CRISIS IN THE AEGEAN WHICH COULD HAVE GRAVE IMPLICATIONS FOR NATO AND FOR MEDITERRANEAN/EUROPEAN SECURITY, SHOULD NOT BE UNDERESTIMATED. ELEMENTS OF AN ECONOMIC PACKAGE FOR GREECE COULD INCLUDE (A) MILITARY ASSISTANCE GRANTS, (B) EXPANDED FMS CREDITS AND GUARANTEES, (C) RESCHEDULING OF FMS DIRECT CREDITS, (D) SUPPORTING ASSISTANCE GRANT, (E) AID MANAGEMENT TRAINING GRANTS, (F) EXIMBANK LOANS OF A FAST-DISBURSING NATURE, SUCH AS LINES OF CREDIT TO MAJOR BANKS, (G) CCC CRESITS, AND (H) STRONG AND VISIBLE U.S. SUPPORT FOR SIGNIFICANT MULTILATERAL ASSISTANCE TO GREECE FROM THE OECD SAFETY-NET, THE IMF OIL FACILITY, AND THE WORLD BANK. I REALIZE THAT MANY OF THE ABOVE CATEGORIES HAVE PROBLEMS CONNECTED WITH THEM--MILITARY ASSISTANCE, FOR EXAMPLE, WOULD OBVIOUSLY HAVE TO BE CONSIDERED WITHIN THE BROADER CONTEXT OF OUR PROGRAMS IN TURKEY; HOWEVER, I BELIEVE IT IS IMPORTANT FOR THE USG TO SHOW SOME FORWARD MOTION, AT LEAST IN INTENT, IN THE VERY NEAR FUTURE. END SUMMARY.

3. ACTION REQUESTED: I RECOMMEND AN ECONOMIC PACKAGE FOR GREECE INCLUDING MOST OR ALL OF IEMS DISCUSSED BELOW. CONSIDERABLE THOUGHT HAS ALREADY BEEN DEVOTED WITHIN USG TO VARIOUS ASPECTS OF ASSISTANCE DISCUSSED IN THIS MESSAGE. IT MIGHT NOW BE APPROPRIATE TO CONVENE A HIGH-LEVEL INTERAGENCY WORKING GROUP UNDER YOUR DIRECTION TO DEVELOP ON AN URGENT BASIS THE REQUISITE IMPLEMENTING ACTIONS FOR A PROGRAM OF ASSISTANCE TO GREECE.

4. BALANCE OF PAYMENTS - IT IS EVIDENT THAT THE GOG FEELS PARTICULARLY VULNERABLE ON THE BALANCE OF PAYMENTS FRONT, DUE TO THE DOUBLE STRAINS IMPOSED BY PETROLEUM PRICES AND BY NEW DEFENSE REQUIREMENTS, THE LATTER REGARDED BY THE GOG AS BEING OF HIGHEST PRIORITY FOR REASONS OF NATIONAL SAFETY. GREECE'S BALANCE OF PAYMENTS PROSPECTS FOR THE CURRENT YEAR WARRANT TIS OFFICIAL CONCERN: WITH GOLD AND FOREIGN EXCHANGE

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RESERVES NOW EQUIVALENT TO TWO MONTHS' WORTH OF IMPORTS, THE MARGIN FOR MISCALCULATION IS THIN. CURRENT ESTIMATES, ASSUMING NO HEATING UP OF THE GREEK-TURKISH DISPUTE WITH CONSEQUENT ADVERSE EFFECTS ON TRADE AND TOURISM, ARE FOR A 1975 CURRENT ACCOUNT DEFICIT OF \$1.3 - \$1.4 BILLION. ALLOWING FOR REASONABLE NET PRIVATE CAPITAL INFOW, AND TAKING ACCOUNT OF REPAYMENTS ON OFFICIAL DEBT, THERE REMAINS A GAP OF \$650 - 750 MILLION TO BE FINANCED BY OFFICIAL

CAPITAL INFLOWS, UNFORESEEN PRIVATE CAPITAL, OR RESERVE
DRAWDOWN. THERE ARE SEVERAL POSSIBLE SOURCES FOR THIS
CAPITAL, INCLUDING THE IMF, FOREIGN COMMERCIAL BANKS,
THE OECD SAFETY NET, AND DRAWDOWNSON PROJECT LOANS FROM
GERMANY, FRANCE, THE EUROPEAN INVESTMENT BANK, AND THE WORLD
BANK. EVEN GIVERN ALL THESE SOURCES, IT IS NOT DIFFICULT
TO PROJECT A TOTAL OFFICIAL CAPITAL INFLOW OF \$550 MILLION
OR LESS. THIS ANALYSIS IS NOT MEANT TO SUGGEST THAT THE
U.S. STEP IN TO PROVIDE FINANCING FOR ANY PROJECTED REMAINING
FOREIGN-EXCHANGE GAP, BUT RATHER TO DEMONSTRATE (A) HOW
CLOSE TO THE LINE GREECE'S PROSPECTIVE ECONOMIC SITUATION
IS, (B) WHY THE CARAMANLIS GOVERNMENT FEELS PARTICULARLY
VULNERABLE ON THIS SCORE, AND KC) WHY, THEREFORE, TIMELY
ANNOUNCEMENT OF U.S. SUPPORT COULD REAP SIGNIFICANT BENEFITS
IN THE CONTINUING PROCESS OF REBUILDING GREEK-AMERICAN
RELATIONS. THE FOLLOWING PARAGRAPHS DISCUSS IN FURTHER DETAIL
POSSIBLE ELEMENTS OF SUCH U.S. SUPPORT, WITH ILLUSTRATIVE
ORDERS OF MAGNITUDE, RECOGNIZING THAT THERE IS ROOM FOR
SOME SHIFTING AMONG THESE VARIOUS PROGRAMS DEPENDING ON
ADMINISTRATIVE AND LEGISLATIVE CONSIDERATIONS.

5. MILITARY ASSISTANCE GRANTS - DEFENSE MINISTER AVEROFF
HAS ON SEVERAL OCCASIONS REITERATED HOW CRITICAL TO GREECE'S
SECURITY IS THE LIST OF 38 PRIORITY-RANKED ITEMS SUBMITTED
EARLIER THIS YEAR TO USDOD IN AN OFFICIAL REQUEST FOR
REINSTATEMENT OF MILITARY GRANT AID. GIVEN GREECE'S
PROSPECTIVE DEBT SERVICE BURDEN, THE GOG WILL, IN THE ABSENCE
OF MILITARY GRANT ASSISTANCE, BE FACED WITH A POLITICALLY
DANGEROUS CHOICE BETWEEN CURTAILING MODERNIZATION
OF ITS ARMED FORCES AND CUTTING BACK ON OTHER CRITICAL

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC PRIORITY 8668

C O N F I D E N T I A L SECTION 2 OF 2 ATHENS 3459

EXDIS

FOR UNDER SECRETARIES SISCO AND ROBINSON FROM AMBASSADOR KUBISCH

SOCIAL /ECONOMIC PROGRAMS. DOLLAR FOR DOLLAR, MILITARY GRANT AID WILL BE THE FORM OF U.S. ASSISTANCE WITH THE MAXIMUM POSSIBLE IMPACT ON GREECE'S POLITICAL AND ECONOMIC SITUATION. A MINIMUM OF \$50 MILLION IN RESUMED MILITARY GRANT AID APPEARS TO BE WARRANTED UNDER THESE CIRCUMSTANCES.

6. FMS CREDITS AND GUARANTEES - APPROXIMATELY \$60 MILLION IN GOG PAYMENTS TO THE U.S. FOR MILITARY SPARE PARTS, LOGISTICAL SUPPORT, ETC., IN CY 1975, AND \$70 MILLION IN CY 1976, ARE NOT COVERED UNDER THE EXISTING FMS CREDIT PROGRAM AND REPRESENT A DIRECT FOREIGN-EXCHANGE DRAIN TO GREECE. SERIOUS CONSIDERATION SHOULD BE GIVEN TO EXPANDING THE FMS PROGRAM TO COVER THESE ITEMS--ALSO FOR TRAINING IN THE U.S., WHICH HAS BEEN SEVERELY CURTAILED--AS EVIDENCE OF U.S. DESIRE TO WORK MORE CLOSELY WITH THE GREEK ARMED FORCES NOW THAN UNDER THE COLONELS.

7. FMS RESCHEDULING - ASSUMING SATISFACTORY ACTION ON THE ITEMS IN PARAGRAPHS FIVE AND SIX ABOVE, WE DO NOT NOW RECOMMEND RESCHEDULING REPAYMENTS DUE TO USG ON FMS DIRECT CREDITS, BECAUSE OF THE UNDESIRABLE PRECEDENT FOR THE FUTURE, AND BECAUSE THE AMOUNTS ARE RELATIVELY SMALL (\$4 MILLION IN CY 1975, \$11.8 MILLION IN CY 1976). HOWEVER, THIS COULD BE RECONSIDERED TO ADD TO A TOTAL ECONOMIC
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PACKAGE IF MILITARY GRANT AID AND FMS CREDITS ARE NOT FORTHCOMING IN SUFFICIENT AMOUNTS.

8. SUPPORTING ASSISTANCE GRANT - GIVEN THE U.S. INTEREST IN THE AEGEAN, AND THE POSSIBLE DESIRE OF U.S. CONGRESS AND PUBLIC OPINION FOR A POSITIVE GESTURE OF ECONOMIC SUPPORT TO GREECE, A SUPPORTING ASSISTANCE GRANT OF \$20 TO \$30 MILLION COULD BE CONSIDERED, WITH THE AMOUNT DEPENDING ON THE AMOUNT OF MILITARY ASSISTANCE GRANTS. THIS WOULD RANK NEARLY AS HIGH AS MILITARY GRANT AID IN ITS POLITICAL/ECONOMIC IMPACT IN GREECE.

9. AID MANAGEMENT TRAINING GRANTS - WE STRONGLY RECOMMEND INCLUSION OF THIS ITEM IN A TOTAL PACKAGE AS EVIDENCE OF LONGER TERM U.S. INTEREST IN UPGRADING GREECE'S MANAGERIAL/ ADMINISTRATIVE TALENT SO AS TO BETTER EQUIP GREEK DECISION-MAKERS, IN BOTH THE PUBLIC AND PRIVATE SECTORS, TO DEVELOP CREDITWORTHY PROJECTS, UNDERTAKE FEASIBILITY AND

MARKET SURVEYS, FISCAL PLANNING, ETC.

10. EXIMBANK - CHAIRMAN CASEY'S VISIT TO ATHENS IN APRIL GENERATED CONSIDERABLE PRO-U.S. SENTIMENT AS WELL AS INTEREST IN EXIMBANK PROGRAMS. IT IS NOW ESSENTIAL TO ACT RAPIDLY IN ORDER TO CAPITALIZE ON THIS MOMENTUM AND, ESPECIALLY, TO DEVELOP U.S. MARKETS HERE IN ADVANCE OF GREECE'S CLOSER ASSOCIATION WITH THE EUROPEAN COMMUNITY. UNFORTUNATELY, GREECE'S INDUSTRIALISTS, WITH FEW EXCEPTIONS, ARE NOT EQUIPPED FOR THE ADMINISTRATIVE IMPLICATIONS OF APPLYING FOR DIRECT CREDITS, AND THE LOCAL TRADITION IS STRONG OF INDUSTRIALISTS DRAWING ON EUROPEAN BANK LINES OF CREDIT AT GREEK BANKS TO FINANCE THEIR IMPORTS. THEREFORE, IF WE WAIT FOR APPLICATIONS TO EXIMBANK FOR GREEK PROJECTS, MUCH OF THE IMPACT OF THE CASEY VISIT WILL BE LOST AND EXPECTATIONS OF RENEWED EXIMBANK INTEREST IN GREECE WILL BE DISAPPOINTED. IN CONTRAST, EXIMBANK CREDIT LINES, ADMINISTERED BY LEADING GREEK BANKS, WOULD BE FAST-DISBURSING, THUS HAVING MAXIMUM IMPACT FROM THE GREEK STANDPOINT ON THE CURRENT ECONOMIC SITUATION; FROM THE U.S. STANDPOINT, THIS WOULD DEVELOP MARKETS AND REACH SMALLER GREEK BUSINESSMEN WHO WOULD OTHERWISE NOT LOOK TO U.S. SUPPLIERS BECAUSE OF UNAVAILABILITY OF FINANCING
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AND RELATIVE EASE OF EUROPEAN CREDIT LINES. FOR PURPOSES OF ILLUSTRATION, THE EMBASSY RECOMMENDS CONSIDERATION OF EXIMBANK CREDITS OF \$25 MILLION EACH THROUGH THE NATIONAL BANK OF GREECE AND THE HELLENIC INDUSTRIAL DEVELOPMENT BANK (ETVA), \$20 MILLION THROUGH THE NATIONAL INVESTMENT BANK FOR INDUSTRIAL DEVELOPMENT (NIBID), AND \$15 MILLION THROUGH THE ANDREADIS GROUP (COMMERCIAL BANK, ETC.). THIS MIGHT SUBSEQUENTLY STIMULATE INTEREST FROM OTHER LOCAL BANKS, INCLUDING U.S. BRANCH BANKS.

11. CCC - WE UNDERSTAND THAT THE PRODUCTS GREECE COULD AND WOULD ABSORB UNDER THIS PROGRAM, NAMELY CORN, BARLEY, AND SOYBEAN OIL, ARE CURRENTLY NOT ELIGIBLE FOR FINANCING. NEVERTHRLESS, THE POTENTIAL AMOUNTS INVOLVED ARE SIGNIFICANT: \$120 MILLION FOR CORN, \$12-13 MILLION EACH FOR BARLEY AND SOYBEAN OIL. WE THEREFORE URGE CONSIDERATION OF THESE ITEMS FOR GREECE ON AN EXCEPTIONAL BASIS.

12. MULTILATERAL ASSISTANCE - THE IMPORTANCE HERE IN GREECE OF STRONG AND VISIBLE U.S. SUPPORT FOR GREEK REQUESTS FOR ASSISTANCE IN INTERNATIONAL INSTITUTIONS CANNOT BE UNDERESTIMATED. WE THEREFORE STRONGLY RECOMMEND THAT THE U.S. PROVIDE THIS SUPPORT (A) FROM THE IMF OIL FACILITY, AT LEAST \$200 MILLION IN THE CURRENT YEAR (NOT ALL OF WHICH WILL BE DISBURSED IN CY 1975), (B) FROM THE OECD

SAFETY-NET, \$130-140 MILLION, AND (C) IN THE WORLD BANK,
A PROJECT LENDING PROGRAM FOR AT LEAST THE NEXT TWO
YEARS IN A RANGE OF \$150 MILLION ANNUALLY, DESIGNED TO
REACH CRITICAL SECTORS AND REMEDY STRUCTURAL WEAKNESSES
IN THE GREEK ECONOMY. KUBISCH

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